



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 21, 1997

Maud Mater, Esq.  
Senior Vice President, General Counsel, and Secretary  
Federal Home Loan Mortgage Corporation  
8200 Jones Branch Drive  
McLean, VA 22102

Dear Ms. Mater:

In your letter to the Board dated November 26, 1996, you requested that the Board determine that the Federal Home Loan Mortgage Corporation ("Freddie Mac") is a financial institution for purposes of the netting provisions in the Federal Deposit Insurance Corporation Improvement Act of 1991 ("Act").

The Act provides that netting contracts among clearing organization members and between financial institutions will be upheld, even if one of the parties to the contract becomes insolvent. The Act's netting provisions were designed to promote efficiency and reduce systemic risk within the banking system and financial markets. The Act defines "financial institution" to include depository institutions, securities brokers or dealers, futures commission merchants, and any other institution as determined by the Board.

The Board adopted Regulation EE (12 CFR Part 231) to expand the definition of financial institution. The rule provides that persons meeting certain tests based on market activity would qualify as "financial institutions" under the Act. Specifically, to qualify as a financial institution, a person must represent that it will engage in financial contracts as a counterparty on both sides of one or more financial markets and meet one of two volume thresholds for its market activity. According to your letter, Freddie Mac qualifies as a financial institution under Regulation EE by meeting both the representation and volume tests. Nevertheless, Freddie Mac requested an individual Board determination comparable to those the Board has made for other government-sponsored entities to avoid potential uncertainty about Freddie Mac's status that may arise in the marketplace in the absence of such a determination.

The Board understands that Freddie Mac has a statutorily mandated function that requires it to participate in the financial markets. Freddie Mac was authorized by